



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

MARIA M. OMS
CHIEF DEPUTY

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JUDI E. THOMAS

April 14, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **CRYSTAL STAIRS, INC. CONTRACT REVIEW – A DEPARTMENT OF
PUBLIC SOCIAL SERVICES CALWORKS STAGE ONE CHILD CARE
PROGRAM PROVIDER**

We have completed a program, fiscal and administrative contract review of Crystal Stairs, Inc. (CS or Agency), a Department of Public Social Services (DPSS) CalWORKs Stage One Child Care (Stage One) Program provider.

Background

DPSS contracts with CS, a private non-profit community-based organization, to provide and operate the CalWORKs Stage One Program. The Stage One Program helps families access immediate, quality and affordable child care as they move through their Welfare-to-Work activities. The Agency provided services to residents in the First and Second Districts during Fiscal Year (FY) 2008-09.

DPSS pays CS a fixed monthly fee of \$36,824 to fund Program staffing and a negotiated monthly rate of \$163 per case. In addition, once a participant chooses a child care provider, CS develops a rate agreement and pays the child care provider directly. DPSS reimburses CS for these costs at rates specified in the contract. The rates vary based on the needs of the participant. DPSS paid CS approximately \$37.5 million during FY 2008-09.

Purpose/Methodology

The purpose of our review was to determine whether CS complied with the contract terms and appropriately accounted for and spent Stage One Program funds in providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed Agency staff, clients and child care providers.

Results of Review

The program participants met the eligibility requirements for the Stage One Program and CS met the contract's performance outcome measures, maintained adequate internal controls and appropriately charged expenditures to the Stage One Program. In addition, the Agency's staff possessed the required qualifications and CS's Cost Allocation Plan was prepared in compliance with the County contract and used to appropriately allocate shared program costs. However, CS did not maintain signed Employee Acknowledgement & Confidentiality Agreement forms for all Stage One Program employees.

In addition, CS's County contract does not include provisions requiring the Agency to return or reinvest unspent funds (program revenue that exceeds expenditures). The contract also does not include provisions that allow the County to recover costs that are inappropriately expensed to the Stage One Program. Including unspent funds provisions in contracts involving California Department of Social Services (CDSS) funds requires CDSS pre-approval. While CS did not retain any unspent revenue for FY 2007-08 and our review did not identify any FY 2008-09 costs that were inappropriately expensed to the Program, DPSS agreed with our recommendations to amend the contract language to include the appropriate provisions and obtain CDSS approval (see Attachment II).

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with CS and DPSS in November 2009. CS's response (Attachment I) and DPSS's response (Attachment II) indicate agreement with our findings and recommendations.

We thank CS for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:AA

Attachments

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, Department of Public Social Services
Dr. Karen Hill-Scott, Board Chairperson, Crystal Stairs, Inc.
Holly Mitchell, Chief Executive Officer, Crystal Stairs, Inc.
Public Information Office
Audit Committee

**STAGE ONE CHILD CARE PROGRAM
CRYSTAL STAIRS, INC.
FISCAL YEAR 2008-09**

ELIGIBILITY

Objective

Determine whether Crystal Stairs, Inc. (CS or Agency) provided services to individuals that met the eligibility requirements of the Stage One Child Care (Stage One) Program.

Verification

We reviewed the case files for 25 (0.5%) of the 4,579 program participants that received services during October 2008.

Results

All 25 participants met the eligibility requirements for Stage One Program services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether CS provided the services in accordance with the County contract and Stage One Program guidelines. In addition, determine whether the program participants received the billed services.

Verification

We reviewed the case files for 25 program participants that received services during October 2008 and interviewed eight participants and 14 child care providers.

Results

CS provided the services in accordance with the County contract and Stage One Program guidelines.

Recommendation

None.

STAFFING QUALIFICATIONS

Objective

Determine if CS staff possessed the qualifications required by the County contract.

Verification

We reviewed the personnel files for 15 CS employees.

Results

CS's employees possessed the qualifications required by the County contract.

Recommendation

None.

PERFORMANCE OUTCOMES

Objective

Determine whether CS met the planned performance outcomes as outlined in the County contract and reported the performance outcomes to the Department of Public Social Services (DPSS). The performance outcomes included an 80% participant/provider satisfaction rate.

Verification

We interviewed eight participants and 14 child care providers.

Results

CS met the performance outcome measures outlined in the County contract and reported the performance outcomes to DPSS.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue were properly recorded in CS's financial records and deposited timely in their bank account. In addition, determine whether the Agency maintained adequate controls over cash.

Verification

We interviewed CS personnel and reviewed financial records including the Agency's bank reconciliations from October and November 2008.

Results

CS maintained adequate controls to ensure that revenue was properly recorded and deposited timely.

Recommendation

None.

UNSPENT REVENUE

California Department of Social Services (CDSS) policy requires DPSS to use a fixed fee method when contracting for services involving State funds unless DPSS obtains CDSS approval to use a different method. The Stage One Program is funded by the State. In addition, DPSS pays CS at a monthly fixed fee rate. However, CS's Stage One contract with the County does not include provisions requiring the Agency to return or reinvest unspent revenues. In addition, the contract does not allow the County to recover costs that are inappropriately charged to the program.

DPSS has other fixed fee Stage One contracts that do not require agencies to return or reinvest unspent revenues or allow the County to recover costs that are inappropriately charged to the program. CS did not retain any unspent funds for Fiscal Year (FY) 2007-08. However, to ensure Stage One funds are used for their intended purpose, DPSS needs to work with County Counsel to amend the Stage One contracts to include provisions requiring agencies to return or reinvest unspent revenues and allowing the County to recover costs that are inappropriately charged to the program. DPSS should also obtain any necessary CDSS approval to amend the contracts.

Recommendations**DPSS management:**

1. Work with County Counsel to amend the Stage One contracts to include provisions requiring agencies to return or reinvest unspent revenues and allowing the County to recover costs that are inappropriately charged to the program.
2. Obtain any necessary CDSS approval to amend the contracts.

EXPENDITURES/PROCUREMENT**Objective**

Determine whether program related expenditures were allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed CS personnel, reviewed financial records and other documentation for 16 non-payroll expenditures (i.e., Child Care Alliance membership dues, software support, child care provider payments, etc.) totaling \$176,974 billed by the Agency from August through December 2008.

Results

The Agency's expenditures were allowable, properly documented and accurately billed.

Recommendation

None.

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE**Objective**

Determine whether CS maintained sufficient internal controls over its business operations and if the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed Agency personnel and reviewed their policies and procedures manuals.

Results

CS maintained sufficient internal controls over its business operations and complied with other program and administrative requirements.

Recommendation

None.

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether CS's fixed assets and equipment purchased with Stage One Program funds were used for the Program and were safeguarded.

Verification

We interviewed Agency personnel and reviewed the Agency's fixed assets and equipment inventory listing. In addition, we performed an inventory of four items purchased with Stage One Program funds totaling \$1,652.

Results

CS used the items purchased with Stage One funds for the Program. In addition, the items were appropriately safeguarded.

Recommendation

None.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll expenditures were appropriately charged to the Stage One Program. In addition, determine whether CS obtained background clearances and verified employment eligibility for the employees assigned to the Stage One Program.

Verification

We traced the payroll expenditures for 15 employees totaling \$18,657 for December 2008 and January 2009 to the Agency's payroll records and time reports. We also interviewed staff and reviewed personnel files for 15 staff assigned to the Stage One Program.

Results

CS appropriately charged payroll expenditures to the Stage One Program. However, 8 (53%) of the 15 employees reviewed did not have a signed Employee Acknowledgement & Confidentiality Agreement form in their employee file as required by the County contract.

Recommendation

- 3. CS management obtain signed Employee Acknowledgement & Confidentiality Agreement forms for all Stage One Program employees.**

COST ALLOCATION PLAN**Objective**

Determine whether CS's Cost Allocation Plan (CAP) was prepared in compliance with the County contract and the Agency used the CAP to appropriately allocate shared program costs.

Verification

We reviewed the CAP and a sample of expenditures incurred by CS from August through December 2008.

Results

CS's CAP was prepared in compliance with the County contract and the costs were appropriately allocated.

Recommendation

None.

PRIOR YEAR FOLLOW-UP**Objective**

Determine the status of the recommendations reported in the Auditor-Controller's prior monitoring review.

Verification

We verified whether the outstanding recommendations from the FY 2004-05 monitoring report issued on December 8, 2005 were implemented.

Results

CS implemented the one recommendation contained in the prior monitoring report.

Recommendation

None.



"...reachin' landin's and
turnin' corners..."

Wateridge
5110 W. Goldleaf Circle
Suite 150
Los Angeles, California
90056 - 1282
(323) 299-8998
www.crystalstairs.org

January 15, 2010

Wendy Watanabe, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 South Figueroa Street, 8th Floor
Los Angeles, CA90071

Dear Ms. Watanabe,

We have reviewed your Stage One Child Care Program 2008-09 contract review report and will implement your recommendation to obtain signed Employee Acknowledgement & Confidentiality Agreement forms for all Stage One Program employees.

We enjoyed working with the Auditor-Controller team and found them to be both knowledgeable and professional. We hope they enjoyed working with us as well.

If you should need any additional information, please contact me at (323) 421-1408 or lloughridge@crystalstairs.org.

Sincerely,

Ly Tanya G. Loughridge
Chief Financial Officer

c: Holly J. Mitchell, Chief Executive Officer
Connie N. Parker, Internal Auditor

Leimert Park Village
4305 Dagnan Blvd.
Suite 102
Los Angeles, California
90008-4908

County of Los Angeles
DEPARTMENT OF PUBLIC SOCIAL SERVICES

12860 CROSSROADS PARKWAY SOUTH • CITY OF INDUSTRY, CALIFORNIA 91746
Tel (562) 908-8400 • Fax (562) 908-0459



PHILIP L. BROWNING
Director

SHERYL L. SPILLER
Chief Deputy

February 22, 2010

TO: Wendy L. Watanabe
Auditor-Controller

FROM: Philip L. Browning, Director

**SUBJECT: CRYSTAL STAIRS, INC. CONTRACT REVIEW – A DEPARTMENT OF
PUBLIC SOCIAL SERVICES CALWORKS STAGE ONE CHILD CARE
PROGRAM PROVIDER**



Board of Supervisors

GLORIA MOLINA

First District

MARK RIDLEY-THOMAS

Second District

ZEV YAROSLAVSKY

Third District

DON KNABE

Fourth District

MICHAEL D. ANTONOVICH

Fifth District

This is to provide you with our response to the Auditor-Controller's (A-C) recommendations based on the A-C's review of the subject contract for Fiscal Year 2008-09.

Recommendations

- 1) Work with County Counsel to amend the Stage One Child Care contracts to include provisions requiring agencies to return or reinvest unspent revenues and allow the County to recover costs that are inappropriately charged to the program.
- 2) Obtain California Department of Social Services (CDSS) approval to amend the contracts, if necessary.
- 3) Ensure Crystal Stairs management obtain signed Employee Acknowledgement & Confidentiality Agreement forms for all Stage One Child Care Program employees.

Response

We agree with these recommendations and will work with County Counsel to implement them. We intend to amend the Stage One Child Care contracts to include the unspent revenues provision by December 31, 2010.

In addition, on January 15, 2010, Crystal Stairs management agreed to obtain signed Employee Acknowledgement & Confidentiality Agreement forms for all Stage One Child Care Program employees.

Also, on January 28, 2010, we sent a letter to CDSS requesting approval to include an unspent revenues provision in all of the Department's fixed-fee contracts with private, non-profit agencies. CDSS Regulation 23-604.3.374 requires the firm-fixed price method of reimbursement for agreements with non-public/non-governmental agencies.

Please let me know if you have any questions.

PLB:ab

"To Enrich Lives Through Effective And Caring Service"